

Latam

# Daily Latam

## Market Analysis Markets

Mexico City, 23 July, 2010

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### Strategic Outlook

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### Stress test moment of truth finally upon us

Results to be released Friday before noon. Markets seem to expect reassuring news.

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### Brazil

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### Exchange Rates: Brazilian real

The real closes stronger on the back of inflows amid more moderate risk premiums.

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### Chile

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### Exchange Rates: Chilean peso

The peso breaches 200-day moving average of 522. We do not rule out continued movements in this direction.

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### Colombia

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### Exchange Rates: Colombian peso

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### Peru

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### Exchange Rates: Peruvian Nuevo Sol

The BCRP intervenes again in the forex market.

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PLEASE SEE ANALYST CERTIFICATION AND OTHER IMPORTANT DISCLOSURES ON PAGE 11 OF THIS REPORT

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# Strategic Outlook

- Brazil →
- Chile →
- Colombia →
- Peru →

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**Stress test moment of truth finally upon us**  
Results to be released Friday before noon. Markets seem to expect reassuring news.

**Mexican inflation number surprises markets once again**

On his second day of testimony before the US Senate, Ben Bernanke stressed the importance of monitoring the labor market, while pointing out that the recent series of monetary policy stimulus packages have been the largest in history and must be gradually withdrawn in order to counteract inflation pressures. In this context, job application numbers came in with an increase of 464k over the last two weeks which saw 427k and 458k, respectively. A hiring slump makes recovery of jobs lost in 2008 and 2009 (estimated at 8.5 million) unlikely and will imply a slower rate of private consumer expansion in the second half of 2010. This variable, in addition to leading US June indicators, point to slowdown in coming quarters. Nonetheless, this scenario appears to have been priced in by the market, which now shifts its attention to the EU stress test results due out this Friday, which we believe will help temper investors' jitters and ease uncertainty with regard to the health of Spain's financial system. In Mexico, inflation numbers for the first half of July came in better than expected at 0.15% vs. BBVA Research at 0.29% and consensus bets at 0.25%, largely on a lag in recent hikes in wholesale farm goods prices passing through to consumers. This result was also underpinned by dropping merchandise prices thanks to a fall in imported inflation. Nonetheless, we believe we could witness inflationary pressure in the country in the second half of 2010, especially in the fourth quarter. We stand by our inflation outlook of 5.2% at the close of 2010.

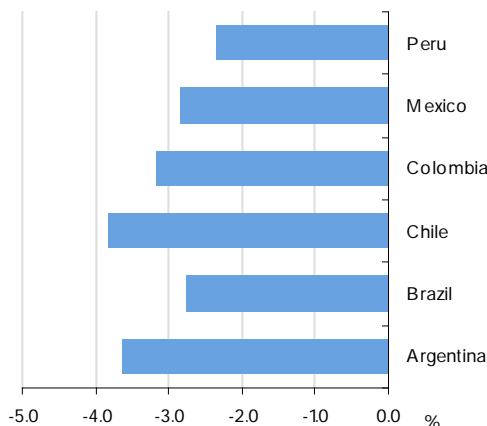
Markets approved of PMI manufacturing numbers and those for Eurozone industrial new orders. Corporate earnings reports from companies such as ATT, UPS and Caterpillar also were well received. The two latter were especially significant as they serve respectively as gauges of international trade and construction. The market will be alert to earnings reports from Ford, Honeywell and Johnson Controls, which are due out today.

**APPENDIX**

Macro Calendar

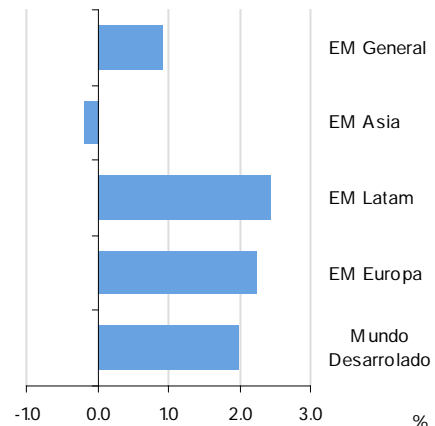


**Daily change on LatAm CDS 5 years**



Source: Bloomberg and BBVA Research

**Daily change on MSCI Index**



Source: Bloomberg and BBVA Research

# Brazil

Strategic Outlook



Chile



Colombia



Peru



## Exchange Rates

### Brazilian real

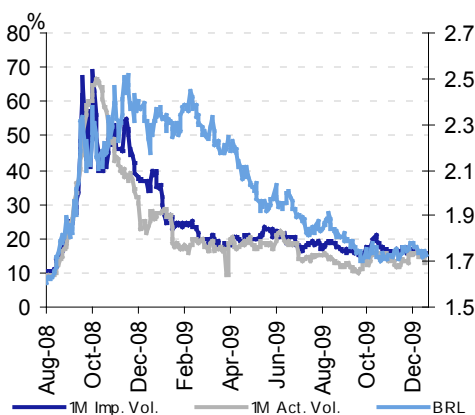
The real closes stronger on the back of inflows amid more moderate risk premiums.

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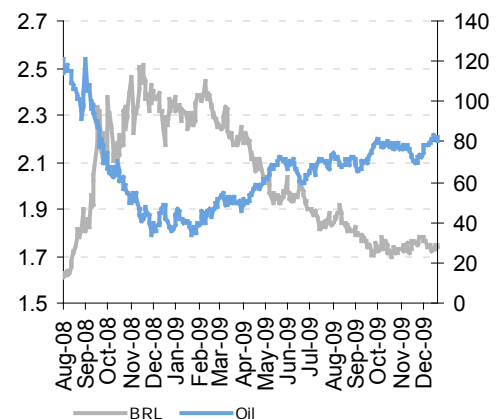
Several factors contributed to the 1% appreciation of the real yesterday: 1) Ongoing surprises on the upside from US earnings reports and better-than-expected economic data (e.g. existing house sales at -5.1% vs. -9%e) boosted mostly by risky assets, with crude increasing 3.3%. 2) Although the Copom's decision to hike the Selic rate by 50bp (below market expectations) evidences bets on lower growth and tightening towards year's end, more favorable data continues to come in (e.g., unemployment was below the projected rate of 7%). 3) Finally, a likely new wave of flows to equities, as revealed by the IBOV increasing by 2%, should offset the possibility of a lower carry that, in any case, would be high in relative terms. In conclusion, we stand by our positive outlook with a 1.75 target, although new losses to the vicinity of 1.78 are likely in response to cycle and financial risk premium factors abroad.

Implied vs. Historic Volatility



Source: Bloomberg and BBVA Research

BRL vs. WTI



Source: Bloomberg and BBVA Research

# Chile

Strategic Outlook



Brazil



Colombia



Peru



## Exchange Rates

### Chilean peso

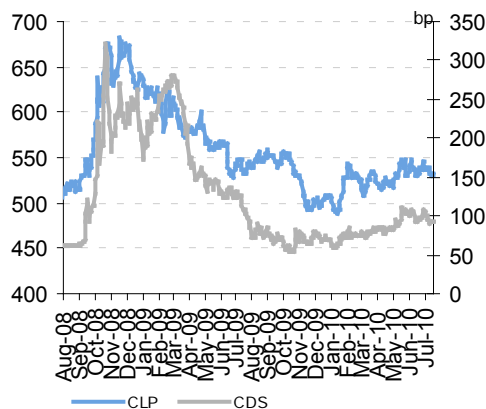
**The peso breaches 200-day moving average of 522. We do not rule out continued movements in this direction.**

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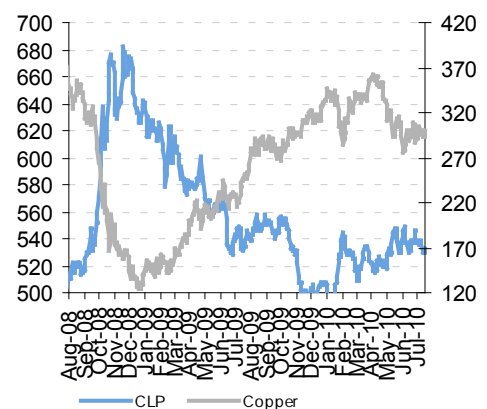
The peso appreciated yesterday by 0.76%, even as the previous session had not priced in cycle risks stressed by Bernanke in his address to Congress. As such, the currency breached the important 200-day moving average support level of 522, which opens the way for a test of the following support standing at 515. Two factors were relevant in the domestic market in recent days: 1) The release of the local currency bond auction calendar for the second half of 2010 (the sum of US\$3bn was already priced in), which could put pressure on fixed-income instruments; and 2) the announcement of debt issuances on international markets for US\$1.5bn (US\$1bn in USD and US\$500mn peso denominated). Even as these sums are already priced in, they tend to rekindle expectations of foreign currency inflows called for in the Reconstruction Financing Plan. This situation comes in addition to upbeat expectations for copper, which enjoyed price hikes of 2.4% yesterday. All told, we await any signal from the central bank with respect to the peso's recent increase and would not be surprised to hear interventionist language if the rally continues.

CLP vs. 5y CDS



Source: Bloomberg and BBVA Research

CLP vs. Copper



Source: Bloomberg and BBVA Research

# Colombia

Strategic Outlook



Brazil



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Peru



## Exchange Rates

### Colombian peso

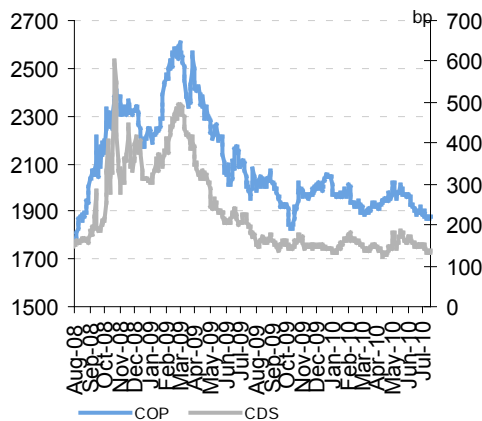
The market awaits monetary policy statement to be released today.

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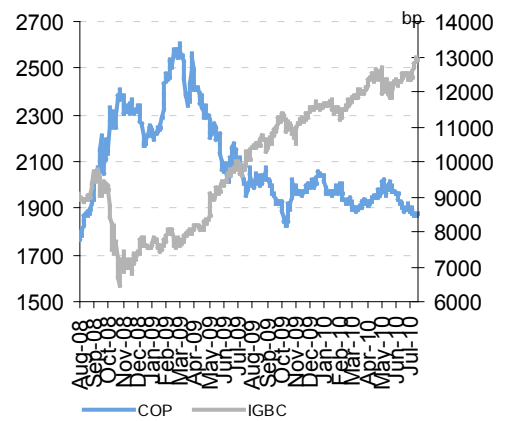
Like most Latam currencies, the peso closed 0.27% stronger yesterday in response to easing risk premiums in global markets. In this regard, however, it must be noted that unlike previous weeks, the magnitude of the appreciation has been lower than that of other Latam currencies week to date (0.82% vs. 1.28% on average, respectively). Additionally, since the beginning of the week, volume traded in the local forex market was below the most recent 3-months average (US\$623mn vs. US\$1.1bn). We believe that this decline evidences that the market expects intervention measures to be announced in today's monetary policy statement, but does not expect a hike in the benchmark rate. As a result, ahead of Banco de la República's meeting today, we expect the peso to close mostly flat.

COP vs. 5y CDS



Source: Bloomberg and BBVA Research

COP vs. IGBC



Source: Bloomberg and BBVA Research

# Peru

Strategic Outlook



Brazil



Chile



Colombia



## Exchange Rates

### Peruvian nuevo sol

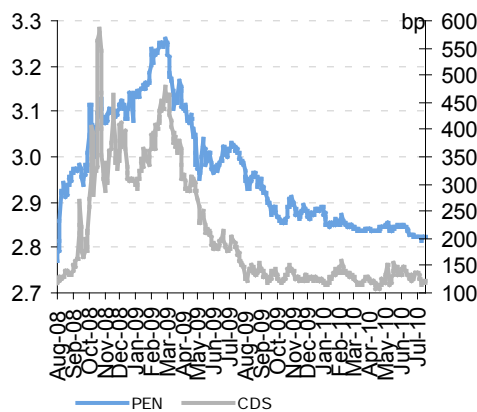
The BCRP intervenes again in the forex market.

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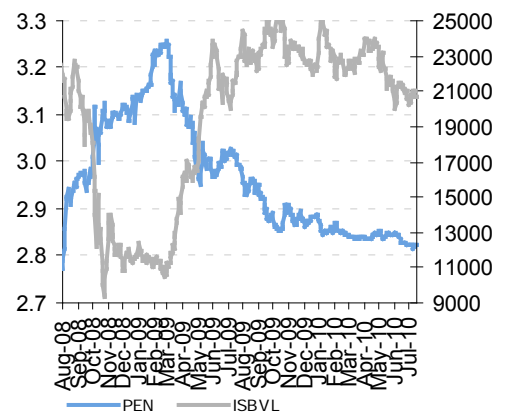
After remaining out of the forex market in the last two sessions, the Banco Central de Reserva del Perú intervened with the purchase of US\$240mn yesterday in response to upbeat global markets and appreciation pressures on the currency. As such, the nuevo sol closed largely unchanged above the 2.82 zone, where –considering BCRP’s recent measures to rein in volatile capital inflows– we think it will remain in the short term.

**PEN vs. 5y CDS**



Source: Bloomberg and BBVA Research

**PEN vs. ISBVL**



Source: Bloomberg and BBVA Research

# Appendix 1

## Summary of the LatAm Market

	Close	Change %				Close %	Change bp		
		1D	1W	YTD			1D	1W	YTD
<b>Currencies</b>					<b>Brazil</b>				
Argentinian peso	3.93	0.01	0.12	-3.51	Selic O/N	10.16	0	0	151
Brazilian real	1.76	1.27	0.27	-0.78	DI Jan-11 Future	10.88	-9	-33	46
Chilean peso	519.20	0.76	2.56	-2.32	LTN Jan-11	10.89	-13	-32	37
Colombian peso	1,862.40	0.27	0.43	8.87	NTN-F Jan-13	12.01	5	-10	-54
Mexican peso	12.77	0.78	0.00	2.44	NTN-F Jan-17	12.06	8	-18	-126
Peruvian nuevo sol	2.82	0.05	-0.04	2.23	NTN-B Aug-14	6.51	0	-14	-124
<b>5 year CDS</b>					<b>Chile</b>				
Argentina	849.45	-3.64	-6.41	-7.09	TPM	1.50	0	47	120
Brazil	120.42	-2.77	-2.51	-1.72	TAB 90d UF	0.15	0	2	-705
Chile	90.16	-3.82	-2.20	31.97	Swap CLPxCAM 2Y	4.14	2	24	109
Colombia	128.16	-3.16	-3.72	-10.34	Swap CLPxCAM 5Y	5.06	-1	7	-17
Mexico	120.92	-2.83	-2.11	-9.62	Swap CLPxCAM 10Y	5.73	0	2	-34
Peru	114.02	-2.35	-3.76	-7.70	Swap UFXCAM 2Y	0.37	5	5	-88
<b>Equity indexes</b>					<b>Colombia</b>				
Argentina Merval	2,359.73	1.39	2.29	1.68	Swap UFXCAM 5Y	1.55	2	-1	-63
Brazil IBOV	65,748.10	1.97	3.56	-4.14	Swap UFXCAM 10Y	2.16	2	0	-42
Chile IPSA	4,304.00	0.42	1.95	20.18	Swap basis 2Y	63.00	1	2	-5
Colombia IGBC	13,221.02	0.13	2.03	13.95	Swap basis 5Y	53.00	0	0	-2
Mexico IPyC	32,720.76	1.91	1.05	1.87	Swap basis 10Y	86.00	1	1	0
Peru ISBVL	21,156.64	2.41	0.81	-5.69	BCP Jan-2012	4.92	-5	50	78
VIX Index	24.63	25.64	25.14	21.68	BCP Aug-2014	5.83	0	7	54
<b>Commodities</b>					<b>Peru</b>				
CRB Industrial	472.00	0.00	0.15	-2.38	Reference rate	2.00	0	0	-450
COMEX Copper	316.05	2.38	5.17	-5.02	Sovereign bond Aug-2011	2.80	-5	-7	-413
WTI	79.30	3.58	3.50	-0.08	Sovereign bond Aug-2017	5.48	-7	-2	-171
Gold	1,194.95	0.84	-1.10	8.93	Sovereign bond Aug-2037	6.54	-5	-9	69
Sugar	18.30	4.75	5.23	-16.25	<b>Global bonds</b>				
Soy	979.50	0.10	-0.86	-3.43	BRL 2040	3.14	-9	-20	-122
<b>Volatilities %</b>									
Argentinian peso	4.29	7.98	11.35	16.78	CLP 2013	1.78	-15	-12	-16
Brazilian real	14.09	15.09	15.78	16.75	COP 2033	6.34	9	-4	-63
Chilean peso	12.38	12.90	13.25	13.78	PE 2033	5.62	-7	-8	-81
Colombian peso	12.59	13.04	13.79	14.49					
Mexican peso	12.75	13.37	13.61	13.86					
<b>NDF currency/US\$</b>									
Argentinian peso	3.96	4.02	4.14	4.41					
Brazilian real	1.77	1.79	1.83	1.91					
Chilean peso	519.10	519.54	521.73	528.45					
Colombian peso	1,863.40	1,865.40	1,874.40	1,910.40					
Peruvian nuevo sol	2.83	2.82	2.83	2.85					
<b>Foward points</b>									
Argentinian peso	0.03	0.08	0.20	0.47					
Brazilian real	0.01	0.03	0.07	0.15					
Chilean peso	-0.10	0.34	2.53	9.25					
Colombian peso	1.00	3.00	12.00	48.00					
Peruvian nuevo sol	0.00	0.00	0.01	0.03					

Source: Bloomberg and BBVA Research

Strategies →

# Appendix 2

## Calendar of Economic Indicators

			Survey	Prior	Actual
<b>Thursday, July 22</b>					
Brazil	FGV Consumer Confidence	JUL		118.5	120
	Unemployment Rate	JUN	7.50%	7.50%	7.00%
<b>Friday, July 23</b>					
Brazil	FGV CPI IPC-S	22-Jul		-0.13%	
Argentina	Trade Balance	JUN		\$1905M	
Colombia	Overnight Lending Rate	23-Jul	3.00%	3.00%	

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We, **Moises Junca Acebedo, Rodrigo Ortega Salazar, Claudia Ceja Gonzalez:**

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